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RICHARD M. TETTELBAUM Associate General Counsel
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OFFICE OF THE September 1, 2000 EXECUTIVE SECRETARY

FEDERAL EXPRESS

Honorable David K. Waddell, Executive Secretary Tennessee Regulatory Authority 460 James Robertson Parkway Nashville, TN 37238

Re:

Docket No. 00-00523, Generic Docket Addressing

Rural Universal Service

Dear Mr. Waddell:

Please find enclosed the original and 14 copies of the "Initial Comments of the Citizens Communications Companies" for filing in the above-styled matter.

An additional copy of filing is enclosed for date stamping and return in a postage prepaid envelope.

Please note my new address and telephone numbers, as set forth in my letterhead.

Richard M. Tettelbaum

Yours very truly,



BEFORE THE TENNESSEE REGULATORY AUTHORITY

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IN RE:)		·00 SEP 5 PM 12 37
GENERIC DOCKET ADDRESSING))	DOCKET NO. 00-00523	OFFICE OF THE EXECUTIVE SECRETARY
RURAL UNIVERSAL SERVICE)		EXECUTIVE SEGME

INITIAL COMMENTS OF THE CITIZENS COMMUNICATIONS COMPANIES

Citizens Telecommunications Company of Tennessee, LLC and Citizens Telecommunications Company of the Volunteer State, LLC (hereinafter, the "Citizens ILECs" or "Citizens"), by their attorney, submit their initial comments in response to the July 14, 2000 "Order Opening Docket for Purpose of Addressing Rural Universal Service and Appointing Hearing Officer" initiating this proceeding (the "July 14 Order").

The Citizens ILECs are incumbent local exchange carriers ("ILECs") serving suburban and rural exchange areas in Tennessee. The Citizens ILECs are "rural telephone companies" as defined in Section 3 (37) of the Communications Act of 1934, as amended, 47 U.S.C. § 153 (37). As such, the Citizens ILECs have a vital interest in this proceeding. The Citizens ILECs have already been affected by changes in intraLATA toll settlements with Bell South. When the Citizens ILECs converted to intraLATA equal access several years ago, Bell South canceled subsidy arrangements inherent in its toll settlement arrangements with the companies. Those foregone subsidies approximate \$2.5 million per year. In addition, the Citizens ILECs, pursuant to an agreement with AT&T, agreed to lower intrastate access rates over a three year period, commencing January 1, 2001. This lowering of access charges will result in a reduction of \$1 million per year in access revenues.

I. Introduction

Ordering paragraph 3 of the July 14 Order invited "rural companies to file comments on the applicability of the decisions in Docket No. 97-00888 to this docket . . ." The thrust of the comments of the Citizens ILECs presented below is that the concept of a generic model based upon hypothetical network costs is inappropriate in determining USF costing in rural service areas. Indeed, in light of the recent decision in <u>Iowa Utilities Board v. FCC</u>, --- F.3d --- (8th Cir. 2000) [Nos. 96-3321, July 18, 2000], there is a substantial legal question whether hypothetical cost models are appropriate for <u>any</u> purpose. However, even if the hypothetical cost models relied upon for non-rural carriers in the TRA's Docket No. 97-00888 proceedings are arguably appropriate for non-rural carriers, those models can have no legitimate application to rural carriers because they do not and cannot reflect the "real world" costs of serving rural areas.

As an additional threshold matter, the Citizens ILECs clearly agree with the Authority's earlier decision on Issue 8c, namely that implicit support arrangements must be made explicit. However, it must be pointed out that for this to take place in a coherent manner, the Authority must also address access reform and rate rebalancing simultaneously with universal service issues. Universal service, access reform and rate rebalancing are the trilogy of telecommunications industry reform and must be handled conjunctively in order to work with a minimum of disruption and economic dislocation.

As a final threshold matter, the Citizens ILECs question the propriety of using a revenue benchmark (see Issues 9j and k) at all, much less for rural carriers. Competitive services subject to competition and market erosion should not be included in determining universal service funding unless the costs of providing those services are also included in the calculations.

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The Citizens ILECs are commenting only on those items in the Docket No. 97-00888 decisions that they believe to be inapplicable or inappropriate to rural carriers. The format of those comments is as follows:

- the TRA's statements of the issue or sub-issue, identified by the numbers assigned in the Docket No. 97-00888 decisions, are in bold type;
- the TRA's specific findings in a Docket No. 97-00888 decision are summarized, in italicized type; and
- 3. the Citizens ILECs' positions and comments on those specific findings, as they pertain to rural carriers, are in normal type face.

II. <u>Issue 9—Revenue Benchmark and Cost Modeling Issues</u>

9a. Should Universal Service cost studies be company-specific or generic?

<u>TRA Findings</u>: A generic cost model should be adopted for all companies. A generic model eases the portability of models between companies and serves a common platform which company specific data can be assessed.

Citizens' comment: The use of a generic model may limit the degree to which the model output results in company specific values. This problem becomes particularly acute when the focus turns to rural service areas. Citizens' believes its internal cost models, which are specific to its rural network, can be reviewed by TRA and serve as a basis for rural USF cost calculations. Also, although related to TELRIC calculations and UNE development, the recent 8th circuit remand serves as a pointed reminder that costs models should reflect the costs of the actual forward-looking network provided, not a hypothetical construct of a fictitious provider. The hypothetical constructs underlying the Docket No. 97-00888 decision are inapposite in a rural environment.

9b. What is the proper territorial scope of Universal Service rates (e.g., statewide by carriers, by service area, or by category of support)?

TRA Findings: Should be consistent with the finding on service areas in issue 5 (Service Areas). In that issue the TRA took guidance from the FCC and the Joint Board that indicated that states should not designate service areas that are unreasonably large because "unreasonably large service areas will discourage competitive entry by increasing the expenses associated with such entry". The TRA agrees that Non-Rural service areas should be no larger than the wire center, or the CBG. The TRA finding stated that areas served by Rural Carriers will not be addressed in this proceeding. These carriers will be supported by existing USF support mechanisms until appropriate forward-looking support mechanisms are developed.

<u>Citizens Comment</u>: Citizens believes that wire center level studies should be conducted for its rural service areas.

9c. What is the proper level to which deaveraging should be applied in the cost studies?

TRA Findings: Should be consistent with the finding on service areas in issue 5 (Service Areas). In that issue the TRA took guidance from the FCC and the Joint Board that indicated that states should not designate service areas that are unreasonably large because "unreasonably large service areas will discourage competitive entry by increasing the expenses associated with such entry". The TRA agrees that Non-Rural service areas should be no larger than the wire center, or the CBG. The TRA finding stated that areas served by Rural Carriers will not be addressed in this proceeding. These carriers will be supported by existing USF support mechanisms until appropriate forward-looking support mechanisms are developed.

<u>Citizens Comment</u>: Citizens believes wire center level studies should be conducted for its rural service areas.

9d. Should rural and non-rural study areas be combined or separated in the cost studies?

TRA Findings: A generic cost model should be adopted for all companies. A generic model eases the portability of models between companies and serves a common platform which company specific data can be assessed. However in issue 5, The TRA finding stated that areas served by Rural Carriers will not be addressed in this proceeding. These carriers will be supported by existing USF support mechanisms until appropriate forward-looking support mechanisms are developed.

<u>Citizens Comments</u>: The vast differences between rural and non-rural telecommunications infrastructure and utilization mandates a distinction between non-rural and rural study areas. Rural areas have much lower population density, with a higher percentage of residential lines. Lines and minutes per switch, loops per sheath mile, investment per loop, loop fill ratios, to name only a few, are all key variables that will create a much higher cost per loop in rural areas.

9f. Should Universal Service cost studies be based on cost studies for permanent UNE prices?

TRA Findings: The Authority finds that the methodology and assumptions used in developing Universal Service costs and UNE prices should be consistent. Some competitors may provide USF through the purchase of UNEs. The TRA recognizes that there are distinct issues to be addressed which may result in a difference between the Universal Service and UNE cost studies, such as inclusion of retail cost in Universal Service but not in UNEs. In order to compare the price of UNEs to Universal Service and make support compensatory to competing carriers, it is necessary to have consistency in cost methodologies (i.e., study area and assumptions).

<u>Citizens Comments</u>: Citizens agrees with Bell South and others who, throughout the course of the Docket No. 97-00888 proceedings, argued for using two different models for UNE and Universal Service. UNEs are a wholesale service which should be costed on a company-wide level, while USF includes retail services and should be costed on a wire center basis.

9h. Should state specific or Federal factors be used in the cost studies?

<u>TRA Findings</u>: Wherever possible, the factors should be state specific with respect to the geographic, topographic, or demographic characteristics of a local service provider's territory at the wire center level.

<u>Citizens Comment</u>: Citizens believes that factors should be company-specific inputs for its serving areas in Tennessee.

9i. Is it possible to create a hybrid model from the individually proposed models?

TRA Findings: The Authority finds that while it is possible to create a single hybrid cost model, it does not appear to be practical. It may be more feasible to consider a combination of models.

<u>Citizens Comments</u>: Citizens believes the TRA should evaluate company-specific models for rural universal service areas.

II. Issue 16 – What Cost Model or Method Should Be Adopted to <u>Calculate Needed Universal Service Support?</u>

16a: What method should be used to distribute population within service areas?

<u>TRA Findings</u>: The TRA found that, due to the similarities of both models before it in the Docket No. 97-00888 proceeding, it would be better to put the models on a more equal input footing and attempt to judge their subsequent performance.

<u>Citizens Comment</u>: In the rural environment, "geocoded" customer locations should be assigned to a road segment within the serving wire center. This result can be achieved by using spatial location techniques such as address-geocoding, Zip +4 centroid, or accurate road surrogation. This method will best reflect the provider's network and the resources that will be used in the future.

16c: What method should be used to determine the proper outside plant mix (i.e., the fractions of aerial, underground and buried cable) and associated materials and installation costs?

<u>TRA Findings</u>: The TRA did not decide this issue, as such, stating that, both models' approaches in the Docket No. 97-00888 proceeding appear to be reasonable and therefore requires no specific model changes relative to the issue.

<u>Citizens Comment</u>: Recognizing that each service providers' territory is unique, and that engineers must design loop plant in a manner that will produce the most cost-efficient network for their company going forward, Citizens believes that the plant mix tables in the chosen cost model should be adjusted to reflect company specific engineering experience and expertise.

16d: What method should be used to determine drop lengths and associated costs?

<u>TRA Findings</u>: The Authority found that the drop costs of the HAI model are more realistic since they vary according to the type of drop and the location of the drop.

<u>Citizens Comment</u>: In the rural carrier context, drop lengths used in a model should be determined in the same manner as the plant mix inputs discussed above in 16c. There is no such thing as a hypothetical network that bears a reasonable relationship to the real world environment in which rural carriers operate.

HAI assumes that drop ranges from 50 feet in densely populated CBGs to 150 feet in rural CBGs. The theory underlying these assumptions is that most houses and buildings are normally placed towards the front of lots and that efficient carriers will run drop wires from the front of the property line to the premises. They also propose that all drop wire should be two pair. Citizens, in its rural environment, believes that the number of pairs per customer should be driven by that customer's specific working lines, with 2 pair drop being the minimum size used. Citizens' loop model uses a maximum length constraint to limit drop length. The actual calculation of length is derived using the realistic view of drop length that assumes that a drop cable usually parallels the distribution cable path (road path) from a distribution terminal to the corner of a lot, and then goes along the side of that lot, finally reaching the side of the structure. A realistic drop length will be modeled by having the drop follow the road path from the distribution terminal to the nearest road point then to the service point. The HAI limitation of 150 feet may be severely understating drop length in many rural areas.

16e: What method should be used to determine structure sharing (e.g., poles, trenches, conduits)?

<u>TRA Findings</u>: The HAI approach appears to be more consistent with the estimation of forward-looking and economic costs of technologies.

<u>Citizens Comment</u>: The structure sharing inputs used in the model should be determined in the same manner as the plant mix inputs discussed above. Citizens' engineers operating in the real world of rural telephony find that the sharing percentages used in the HAI model can be realized in urban areas, but bear no rational relationship to those that can be realized in rural markets.

16f: What method should be used to determine the most economically efficient fiber-copper crossover point?

<u>TRA Findings</u>: The HAI model's crossover point, 18,000 feet, is the most economically efficient.

Citizens Comment: The fiber-copper crossover point in a rural environment can only be determined by those who are actually building the network in such an environment -- the outside plant engineers within each rural company. The determination of crossover points should also be consistent with the fundamental rules and practices for network engineering published in widely accepted loop engineering guidelines. Two such published guidelines are Lucent's Outside Plant Engineering Handbook (1996) and Telcordia's Notes on the Network (1997). A network comprised of copper loops in excess of 12,000 feet, as HAI assumes, results in a degradation of voice grade services and prohibits access to advanced telecommunications services for customers served by these loops. The Citizens-specific model uses a crossover point of 12,000 feet, a more realistic figure in a rural environment.

16g: What loop design standards, if any, should be adopted for the cost model?

<u>TRA Findings</u>: The T-1 technology advocated by the HAI sponsors enables quality voice and advanced telecommunications services on copper loops up to 18,000 feet in length

Citizens Comment: Loop design inputs in a rural environment should be determined in the same manner as the plant mix inputs discussed above. They should also be consistent with the fundamental rules and practices for network engineering published in widely accepted loop engineering guidelines. Two such published guidelines are Lucent's Outside Plant Engineering Handbook (1996) and Telcordia's Notes on the Network (1997).

16h: What size(s) of digital loop carriers should the model incorporate?

<u>TRA Findings</u>: This issue does not appear to be addressed by either the TRA's findings or their summation of the parties' positions in the Docket No. 97-00888 decisions.

<u>Citizens Comment:</u> The sizes of digital loop carriers incorporated in the model should be consistent with the sizes used by the company being modeled.

16j: What method should be used to determine the materials and installation costs of manholes, poles, anchors, guys, aerial cable, and building attachments?

<u>TRA Findings</u>: The HAI inputs should be used for determining the cost of materials and installation costs of manholes, poles, anchors, guys, aerial cable, and building attachments. The BCPM should be adjusted accordingly.

<u>Citizens Comment</u>: HAI model inputs based on the mammoth purchasing power of an RBOC are inapposite to the circumstances of a rural carrier. Accordingly, Citizens supports the use of company-specific cost data for all telecommunications plant and plant structure costs used in a model. Company-specific data will best reflect the provider's actual network and the cost of resources that will be used in the future.

16k: What method should be used to determine the cost of the Network Interface Device (NID)?

TRA Findings: The Authority adopted the HAI inputs for calculating the cost of the NID.

Citizens Comment: See response to 16j.

161: What method should be used to determine the cost of investment and installation of service area interfaces (SAI)?

TRA Findings: The Authority adopts the HAI inputs for calculating the cost of SAI's.

Citizens Comment: See response to 16j.

16m: What method should be used to determine cable fill and utilization factors?

<u>TRA Findings</u>: Neither the BCPM or HAI model requires a change in operation. The Authority noted that fill and utilization are outputs for both models derived from various inputs. The results will be analyzed in future deliberations.

<u>Citizens Comment</u>: Citizens believes that cable fills and utilization in urban environments bear no relationship to rural areas. Accordingly, cable fills and utilization in rural areas should be output values that result from several variable inputs, such as design pairs per household and minimum cable sizing. Due to the fact that these fills in rural areas will be the result of inputs obtained from outside plant engineers and industry experts, they more accurately reflect the cost of a forward-looking rural network than those that result from "canned" inputs for a generic provider.

16n: What method should be used to determine the mix of host, stand-alone, and remote switches?

TRA Findings: Neither BCPM nor HAI could be deemed as superior in estimating the proper mix of switch types. BCPM defaults are based on CLLI data for serving areas as provided by Telcordia's LERG. This data indicates whether any given switch is a host, remote or stand-alone, thereby determining the company's mix of types of switches. The HAI documentation states that the model is capable of engineering and costing end office switching systems comprised of specific mixes of host remote and stand-alone switches. Because accurate data on the purchase price of host, remote, and stand-alone switches of varying capacities may not be available, the model defaults to input values for common

equipment and average per line investments over an "efficient mixture" of switches in the modeled network.

<u>Citizens Comment:</u> To calculate rural switching costs, Citizens supports use of Telcordia's SCIS/MO and SCIS/IN application. Company switch-specific input data is used to determine the switching investments. For example, switch location, type and capacity are Citizens specific; thus the mix of host, stand-alone, and remote offices taken per the LERG are modeled correctly.

160: What switch capacity constraints, if any, should the model employ?

TRA Findings: Neither BCPM nor HAI could be deemed as superior in estimating the switch capacity constraints. In BCPM, adjustable inputs determine capacity constraints, as well as corresponding levels of usage and fill for each CLLI switch. The BCPM limits switch capacity to 80,000 lines, 1,800,000 CCS of busy hour calls, and 600,000 busy hour call attempts served by a switch (both BST and UTSE recommend these values). The HAI default total line capacity is also 80,000 lines. The HAI default busy hour call attempts constraints range from 10,000 to 600,000, and the HAI default Busy Hour CCS constraints range from 30,000 to 1,800,000.

<u>Citizens Comment</u>: The number of lines, engineered fill factor, and Busy Hour calls and CCS per line are all inputs that influence the capacity of a switch. The capacity constraints used in the models under evaluation in the Docket No. 97-00888 were typical values for denser urban exchanges and do not reflect default values for Citizens or any other rural serving areas.

16p: What method should be used to determine switching investment costs?

TRA Findings: The Authority cites its decision from the UNE docket No. 97-01262 with regard to the proper discounts to be used in the model. In that decision, the Authority used the testimony of an AT&T witness to establish discounts. The authority also restricted BST from including proposed stand-alone vertical features in its cost estimates. Finally, the Authority established the following:

BST/UTSE will use the switch curves derived from Bellcore's SCIS model BST/UTSE will use the output from underlying SCIS calculations when SCIS/MO is run in its marginal mode; and

BST/UTSE will recalculate switch usage charges per CCS as follows: First, subtract non-traffic sensitive line termination costs and getting started investments from total switch investments. Second, divide the resulting amount by the volume of busy hour calls measured in CCSs.

Citizens Comment: Citizens agrees with the methodology sponsored by BST/UTSE with a single caveat – part of the "getting started" investment should be assigned to calculate switching costs. The "getting started" investment includes miscellaneous components that allow a switch to function, e.g., maintenance and test equipment and equipment spares. Also, processor-related equipment is assigned to the "getting started" investment. The latter is the "brains" of the switching fabric that sets up and routes calls and, unquestionably, should be considered in calculating switching costs.

16q: What method should be used to determine the portion of total inter-office trunking, signaling, and local tandem costs to be attributed to universal service?

<u>TRA Findings</u>: The Authority found that there should be no adjustments to the models for inter-office trunking, signaling, and local tandem costs at this time.

<u>Citizens Comment</u>: Citizens agrees with BST that the method to allocate the portion of total inter-office trunking, signaling, and local tandem costs to universal service should be based on the amount of local traffic which uses these components of the network. As stated by Citizens in issue 9e, both the revenue benchmark and the cost studies should include only the components necessary for the provision of basic service. As also noted by the TRA on page 56 of its' Phase I Order, "[a]t a minimum, the entire loop and port, and reasonable allocations of switching costs, tandem switching, transport and any software necessary to provide the services in the revenue benchmark must be included in calculating the forward-looking costs for each wire center".

16r: What method should be used to determine costs of general support facilities (e.g., vehicles, land, buildings)?

TRA Findings: The Authority found both approaches are similar and reasonable. Therefore, the Authority does not adopt one method over the other. BST used company specific inputs land and building loading factors which reflect the relationship between central office investment and its associated land and building investments. UTSE concurs that company specific costs should be used. HAI used actual 1996 company investments to determine the ratio of general support investments to total investments. The ratio is then multiplied by the network investment estimated by the model to estimate general support investment. No changes to the inputs of either model for general support facilities are required at this time.

Citizens Comment: Citizens believes that forward looking studies should be performed to determine investment relationships between general support facilities and network investment. Studies should be conducted to develop a design for various "model central office floor plans", laid out for state of the art equipment. For example, if all the central offices are similar in size, one model office would suffice. If they vary widely in size, perhaps a small, medium, and large sized model office would suffice. Three general steps to conducting this type of study are 1) develop the investments that would be required to construct each of the model buildings, 2) develop the investments necessary for the equipment that would be placed in the building at its ultimate capacity, and 3) calculate the investment ratios and the expense ratios.

16s: What method should be used to determine the economic depreciation rate of assets?

<u>TRA Findings</u>: The Authority determined that the method that AT&T used was much more appropriate in determining the economic depreciation rate of assets using rates prescribed by the FCC and the TPSC.

<u>Citizens Comment</u>: Citizens believes that an economic life estimate should be provided for each category of investment included in the study. Modern economic lives should be

used as the basis for developing economic depreciation rates. The flaw in the TRA's earlier decision is that it relied upon older, regulatory prescribed depreciation rates.

16t: What method should be used to determine plant specific (e.g. equipment and maintenance), non-plant specific (e.g. engineering network operations), customer service (e.g. marketing and billing), and corporate (e.g. legal and accounting) expense factors?

TRA Findings: The Authority found that its decision in this matter should be consistent with its decision in the Permanent Prices, Docket No. 97-01262, Issue 7 (UNE docket). Specifically the Authority found that BST and UTSE should reduce the 1996 normalized Network Operations Expenses in the BCPM Model by 22.5%. The authority was not convinced by AT&T arguments to reduce the expense by 50%. The Authority arrived at the 22.5% by using a 7% productivity reduction over 3 years (?).

Citizens Comment: Citizens believes that the use of historic accounting records to arrive at plant specific expense factors and attempting to estimate productivity reductions in the future may distort the result of actual forward looking maintenance expense estimates. As in the study of network investments, companies should evaluate the activities from actual operations that are required for service assurance (i.e., Repair clerk, Testing and Assignment, Dispatch, and Field Technicians) and relate those activities to levels of occurrence (i.e., # of trouble tickets). This type of activity based cost analysis adheres to the basic principle of cost causation that is the foundation of incremental analysis. If forward looking productivity estimates are used, they can be addressed at the underlying activity center, rather than a universal application of a percentage reduction.

16x: What is the proper cost and percentage of equity?

<u>TRA Findings</u>: The Authority adopts a cost of equity of 12.46% for use in all cost models estimating universal service costs. They reached this number by using AT&T's suggestion of a proxy group of firms consisting of existing LEC companies and BST's constant growth DCF model.

<u>Citizens Comment</u>: Citizens believes that company-specific values should be used for the cost and percentage of equity inputs. Each rural company has its own unique capital structure and it should be reflected in the model's inputs.

16y: What is the proper cost of debt?

<u>TRA Findings</u>: The Authority found that UTSE's cost of debt better fit for the characteristics of cost factors and therefore has adopted this method.

<u>Citizens Comment</u>: Citizens believes that company-specific values should be used for the cost of debt input. Each company has its own unique capital structure that should be reflected in the model's inputs.

Respectfully submitted,

THE CITIZENS COMMUNICATIONS COMPANIES

By:

Richard M. Tettelbaum, Associate General

Counsel

Citizens Communications Company 6905 Rockledge Dr. Suite 600 Bethesda, MD 20817

301-897-5584

September 1, 2000

CERTIFICATE OF SERVICE

I, Richard M. Tettelbaum, Associate General Counsel of Citizens Communications, hereby certify that I have served a copy of the foregoing "Initial Comments of the Citizens Communications Companies" to each of the following parties via U.S. First Class Mail, postage prepaid at the addresses shown below, this 1st day of September, 2000.

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